

AFRICAN DEVELOPPEMENT BANK



AFRICAN DEVELOPMENT FUND



STATEMENT BY OMAR KABBAJ, PRESIDENT
OF THE AFRICAN DEVELOPMENT BANK
TO THE 34TH ORDINARY SESSION OF THE ASSEMBLY
OF HEADS OF STATE AND GOVERNMENT OF THE
ORGANIZATION OF AFRICAN UNITY

ABIDJAN
COTE D'IVOIRE

JUNE
1998

STATEMENT OF THE PRESIDENT OF THE AFRICAN DEVELOPMENT BANK TO
THE 34TH ORDINARY SESSION OF THE ASSEMBLY OF HEADS OF STATE AND
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(Ouagadougou, Burkina Faso, 8-10 June, 1998)

Your Excellency Mr. Chairman
Your Excellencies the Heads of State and Government,
Honorable Ministers,
Your Excellency the Secretary General of OAU,
Distinguished Delegates,
Ladies and Gentlemen,

It is with great honor that I take this opportunity to address this august Assembly, for the second time since my election to the Presidency of the African Development Bank.

It is also an honor and a pleasure to pay tribute to His Excellency Robert Mugabe, President of the Republic of Zimbabwe for his able stewardship of the OAU during the past year. I wish to take this opportunity to extend my warm congratulations to the in-coming Chairman of the Organization of African Unity, His Excellency President Blaise Compaore and to thank him for inviting me to this momentous meeting.

Permit me, Mr. Chairman, to start by recapitulating Africa's recent economic performance and the contribution of the ADB. Subsequently, I will outline the measures recently taken to streamline the operations of the Bank for increased development effectiveness. Finally, I will summarize the major challenges facing the continent at the close of the Century and the attempts of the ADB to contribute to surmounting these challenges.

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

Africa's economic performance in 1997, continued on the positive trend with GDP growth estimated to have averaged 4.5 per cent during the past two years compared to an average of less than 2 per cent during 1990-1995. GDP growth surpassed that of population with close to 40 countries experiencing positive growth in real per capita income in 1997, while only half that number of countries had such growth rates at the beginning of the decade. On-going policy reforms have contributed to reduction in overall fiscal deficits, the average inflation rate, and in the current account deficit. Overall economic performance, however, remains vulnerable to adverse external shocks emanating from weaker international prices for some major primary commodities, unfavourable weather conditions and civil strife in some countries. The effects of the external shocks have been mitigated by the greater resilience associated with the

macroeconomic reforms implemented by many countries. This contributed to most countries experiencing positive economic growth during the last three years which contrasts, with the performance at the beginning of the decade, when one-third of African countries experienced economic decline.

Looking ahead to the next several years, the prospects for sustainable growth and development are promising. The latest forecasts indicate that GDP growth rate in 1998 and in the medium-term will be around 4 to 5 percent. On the domestic front, growth should benefit from the deepening of economic reforms and the ensuing declines in inflation and fiscal deficits, as well as continuing improvements in the environment for private sector development. However, we recognize that this picture masks the structural weaknesses of the African economies as well as the differences among countries. It remains true that a majority of African countries depend on a few agricultural and mineral products and services. Therefore, African countries cannot afford to be complacent; more needs to be done to consolidate, sustain and deepen economic development, especially with respect to reducing absolute poverty.

Your Excellencies,

It goes without saying that the principal responsibility for the development of the African continent rests squarely with the African countries themselves. Despite the encouraging signs of economic recovery in recent years, growth rates are still not sufficiently strong and broad-based to reduce poverty. Furthermore, while underscoring the need for adequate concessional resources, as well as, the need to ensure that an increasing part of this investment is financed from national savings, the efficiency of investments must also be improved.

The origin of Africa's economic problems and a major factor explaining the fragility of its current recovery can be traced to the continent's policy weaknesses, adverse economic developments (both domestic and foreign), and political uncertainties. Consequently, if Africa is to restore lasting stability, reinforce growth and sustain confidence in the continent's ability to take its rightful place in the global economy, it must continue to take firm and consistent policy actions to address the root causes of its problems and spur additional domestic and foreign investment. Because of the multidimensional nature of these problems, no one single policy action or measure will be sufficient as a solution. Instead, there should be an overall framework within which to address all the problems in tandem and stimulate investment.

In this respect, I wish to recapitulate some of the critical political and socio-economic issues addressed in the Joint Statement of the Chief Executives of OAU, ECA and ADB, delivered pursuant to our meeting in Abidjan on 23 January, 1998.

Regarding the political development in Africa, we have noted the strong commitment to political stability, pluralism and democracy by an increased number of countries. However, it was pointed out that to sustain the political and economic progress achieved, the practice of good governance has to be further promoted. Concerning the various conflicts in the region, our three institutions underscored the importance of adequate support by international donor community to help the Great Lakes Region as well as other regions emerging from periods of severe strife and conflict.

With respect to economic and social trends, while commending the relatively encouraging economic performance of a large number of African countries in the last few years, we have urged countries to accelerate economic growth through private sector development and attract external investment. Concerning the external debt of African countries, while appreciating the HIPC initiative, we have jointly urged the international community to adopt a more flexible stance and consider other initiatives to resolve the debt problem. We like wise noted the promising steps taken by countries and sub-regions to advance regional cooperation and integration. Nonetheless, there is need to do more in this direction. In view of this, ADB has renewed its commitment to assist in mobilizing resources for regional integration and the promotion of a greater role for the private sector.

Our three institutions have agreed to strengthen their joint secretariat and tackle together the social and economic challenges of the continent.

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

Permit me to outline next the main aspects of Bank Group operations in 1997. The ADB Group made considerable advances to provide increased support for projects and programmes that promote economic growth and poverty reduction in African countries. Bank Group loan and grant approvals reached US\$ 1.8 billion, which was twice the level of the preceding year. The increase is particularly noteworthy in the case of the African Development Fund loan and grant approvals which increased more than threefold to nearly US\$ 1.1 billion. This is testimony to the fact that the Fund is now well geared to support reform and investment programmes in the 39 low-income countries which have limited access to non-concessional resources. In 1998, Bank group commitments are programmed to reach close to US\$ 2.5 billion, of which slightly more than one-half would be from the concessional window of the Bank Group. This would represent what we consider to be an appropriate level for the Bank Group operations.

During 1997, the Bank has also made significant progress in the programme of institutional reforms launched in September 1995. The reforms addressed issues related to the quality of Bank Group operations, financial management, organisational structure, and institutional governance. The achievement in all these fields has considerably enhanced the magnitude and scope of Bank Group operations in regional member countries.

It must be emphasized that the increase in operations has been achieved in parallel with the setting up of mechanisms for ensuring operational quality to ensure the development effectiveness of our interventions so that they generate positive results on the ground. The quest for quality is an on-going process which covers the range of activities aimed at improving operations including such as country programming project cycle activities, organisational streamlining, donor coordination, procurement oversight and human resource management. I believe that the past two years have laid the ground for a sustained revival of the Bank Group. However, one of the immediate challenges facing the Bank Group which need to be addressed both at the country and regional levels is the demonstration of leadership on developmental issues facing the continent.

This would require us to invest in deepening the institutional reform process and better define our vision of the Bank Group's role in the coming years. This vision must be rooted in a competent analysis of the main challenges and opportunities faced by the African continent. We have already initiated the process of defining the vision of the Bank, which will be developed with the active involvement of all stakeholders – staff, management, Boards of Directors, Regional Member Countries and their civil societies and the private sector.

In the area of finance, we reviewed the borrowing costs of the ADB window so as to offer loans on more competitive terms. As a result, three new single-currency loan instruments have been created so that borrowers can select currency and interest rate exposures that are suitable to their individual external debt service capacity. Borrowers have also the choice of converting their existing multi-currency variable rate loans to the new single-currency rate loans. Furthermore, our Board of Directors has approved the introduction of South African Rand-denominated loans, which will facilitate our capacity to provide the type of investment finance required by some borrowers, as well as to diversify the Bank's exposure to currency risk. In addition, I am pleased to report that just over two weeks ago, the Board of Directors approved a significant reduction in the one per cent commitment charge on the ADB loans. This will reduce the burden on ADB borrowing countries and increase the competitiveness of the Bank vis-à-vis other lenders.

The Bank's net income for 1997 will represent an increase on the already good performance achieved last year. This favourable outcome is the result of stronger financial management, including the strict implementation of measures aimed at controlling arrears and containing administrative costs. In this connection, I would like to commend and thank the Member Countries for their support in the payment of subscriptions and arrears in compliance with the Declaration of the Libreville Summit of African Heads of State. I am happy to report that the issue of loan arrears has been effectively addressed and no further building up of arrears by active Countries has been experienced. The problem of countries in chronic arrears particularly, those experiencing or coming out of political unrest and instability is however yet to be resolved.

Your Excellencies,

I am also pleased to report that the agreement of the Fifth General Capital, Increase (GCIV) of the Bank was successfully concluded at the 1998 Bank Group Annual Meeting. In line with the Declaration of the Libreville Summit of African Heads of State, the agreement opened the Bank to external partners while still maintaining its African Character. We believe this will send strong signals to the capital markets. The injection of new capital will bring our financial ratios to levels comparable to those of other MDBs, facilitate borrowing on most favorable terms, and, consequently, increase the competitiveness of our loan products. In addition, the conclusion of the negotiations has paved the way for the full release of the last tranche of ADF-VII and for commencement of consultations of the Eight Replenishment of the African Development Fund. The consultation started on 28 May, 1998 and the subsequent meeting will be hosted by Canada in July, 1998.

In supporting the development activities of member countries, the Bank will, in the foreseeable future, continue to focus its interventions on activities that contribute to poverty reduction. Consequently, in the context of the African development, the Bank will continue to direct its

financial and technical assistance to the regional member countries in areas such as strengthening production capacity; promoting policy reforms; facilitating economic cooperation and regional integration; and promoting private sector development and Investment.

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

All the forgoing reform measures have been taken to tackle the major challenges facing the continent, namely poverty reduction, private sector development, debt alleviation, and regional integration. Let me briefly touch upon those challenges in turn and some of the measures that the Bank Group is undertaking to assist in tackling them.

It is highly worrisome matter that Africa is approaching the third millenium with up to 45 per cent of the population living in absolute poverty and seriously lagging behind those in other developing countries. Current estimates indicate that Africa needs to achieve a sustained level of economic growth at about 8-10 percent per annum to arrest, and reverse the spread of poverty. The ADB Group, particularly through the African Development Fund, believes that poverty reduction will continue to be the principal objective of the Bank's development activities in borrowing countries. This calls for an integrated, multi-disciplinary approach, which ensures that the promotion of the private sector; empowerment of civil society; better management of the environment; local institutional capacity development; and good governance are paid even greater attention as they are integral elements of the sustained poverty reduction effort.

In this respect, one important financial instrument that needs to be developed further is that of microfinance for the poor. With a view to contributing to such an effort, the Bank's Board of Directors approved this year the establishment of the "ADF Micro-finance Initiative for Africa (AMINA)". This pilot programme aims at increasing access to credit and financial services for micro-entrepreneurs, especially women. An amount of US\$ 20 million of concessional resources has been earmarked to support the initiative, which will use NGOs and other grassroots organizations as intermediaries.

The Bank gives high priority to the central role that should be accorded to the private sector in respect of attaining sustainable economic growth in the continent. In view of the increased demand for assistance to the private sector in African countries, the Bank created a full-fledged Private Sector Department in September 1997 and adopted a new strategy which would allow the Bank to offer a wider range of services to its member countries. Since the Bank started its private sector operations in 1991, it approved 33 private sector projects consisting of loans and equity participations totaling nearly US\$ 130 million.

As at the end of 1997, the region's stock of external debt is estimated to have reached some US\$ 315 billion, with debt servicing accounting for about a quarter of export earnings. A major positive development in this regard, however, is the wide international consensus that now exists on the need to broaden existing international initiatives to help resolve the debt burden of African countries. This is especially true of the debt of the 33 countries, which are classified as heavily indebted poor countries (HIPC). I am pleased to report that the ADB Group, which had initially

allocated US\$ 320 million from its own resources in support of the HIPC initiative, is working actively with the Bretton Woods institutions and bilateral donors to mobilize resources to reduce the external debt of African countries to sustainable levels. In this respect, an Agreement for Uganda was signed in Abidjan on 28 of May, 1998. Under the Agreement Uganda has received debt relief amounting to US \$ 30 million. The international community would need to assist all eligible countries to embark on policy measures leading to their inclusion in the HIPC process by the year 2000, as indicated in the recent Communiqué of the G8 Birmingham Summit.

To ease the debt of low-income member countries, the Bank Group has also established the Supplementary Financing Mechanism (SFM), similar to the IDA Fifth Dimension programme. It provides concessional assistance to eligible performing low-income countries with outstanding ADB debt for the payment of interest due on such loans. An initial amount of US\$ 180 million has been allocated for financing the programme.

Your Excellencies,

Now, more than ever, it is clear that effective regional integration can permit greater mobilization of resources with a view to efficiently implement common investment and industrialization policies, taking advantage of economies of scale created by larger markets. It also provides opportunities for channeling more direct foreign investment towards Africa. In light of this, I wish to stress that the Bank Group, support for economic cooperation and integration efforts remain to be one of the key priorities. Through our cooperation arrangements with Regional Groupings, we shall continue to provide financial resources for the implementation of projects, policies and strategies aimed at prompting regional integration. In this connection, I would like to note that the theme of this year's ADB Group Annual Meetings Symposium was on Regional

Cooperation and Integration in order to raise awareness and exchange views on this critically important subject.

To enhance and accelerate economic integration, we are focusing more on facilitating and mobilising the flow of investment resources into Africa and provision of technical assistance and professional advice as needed. In this respect, we are working on the improvement of portfolio quality, developmental effectiveness and more strategic approaches in the selection of development projects, taking into consideration our comparative advantage and the absorptive capacity of borrowing countries.

Mr. Chairman,
Your Excellencies,
Ladies and Gentlemen,

Allow me to conclude by saying that Africa's recent economic performance gives us some reason for optimism. We therefore, need to take advantage of the improved socio-economic environment in our continent. Sustained growth rests on continued improved policy environment in many countries and tireless efforts at the reform programmes that have already been initiated. Poverty reduction should be at the centre of our plans of action. Moreover, we must ensure that the

private sector plays its indispensable role as engine of growth, particularly in this age of globalization and severe competition. We should also place special emphasis on the emergence of integrated regional markets in Africa as a long-term process requiring the active participation of all segments of society. In short, we should make every effort to mobilize the considerable human and financial resources at our disposal to ensure that our collaborative efforts are effective and successful. I would like once again to thank all of you for your continued support to the African Development Bank Group.

I thank you for your attention.

1998-06-08

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